Get Smart About YOUR FUTURE

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Getting smart about your health...your finances...and your future!

Welcome to our third issue

In this issue you'll learn about your options for paying the high costs of long term care. Because traditional health insurance does not pay for most long term care expenses, long term care often places a financial strain on many families. And most of us don't have a plan for meeting these expenses.

Sadly, all too many of us know someone who has spent and given away the assets they accumulated over a life of hard work in order to be eligible for government assistance to pay for long term care. There's a better way.

Long term care insurance empowers us to accept personal responsibility for our future security. As Open Season for the new Federal Long Term Care Insurance Program approaches, I urge you to take a serious look at how you would pay for care. Do it for yourself and your loved ones!

Kay Coles James

Director, U.S. Office of Personnel Management

LONG TERM CARE: WHAT IT COSTS–AND HOW TO PAY FOR IT

Long term care may cost more than you think—and grows costlier every year.

Many people dramatically underestimate the price of long term care. *Even worse:* they think they are prepared, but they aren't.

Here's a description of three types of long term care—and the costs associated with each…

■ **NURSING HOME.** The average stay in a nursing home lasts 2.6 years.* The annual average cost of a semi-private room in a nursing home is $52,000.** By the year 2030, it is estimated it will be $190,600.***

■ **ASSISTED LIVING FACILITY.** Assisted living facilities are becoming a popular alternative to nursing homes. They offer a high level of care and fairly independent living. They do not provide advanced medical care. Most facilities require residents to be mobile but will assist with daily activities, such as bathing and dressing. Costs vary, depending on the location and duration of your care, and may also vary based on the level of assistance you need. In 2000, the average annual cost was $25,300.*** By the year 2030, the average annual cost is projected to be $109,300 a year.***

■ **HOME HEALTH CARE.** While costs can vary based on the number of hours you receive care, the average annual cost for home care is well over $20,000 a year. This is based on a home health aide at $18/hour**, for five hours, five days a week. By the year 2030, the average annual cost is projected to be $68,000.***

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Guaranteed renewable: What does it mean? Most long term care insurance plans (including the Federal Long Term Care Insurance Program) are guaranteed renewable — insurance companies cannot cancel your coverage for any reason other than non-payment of premium. And they cannot raise your rates because you get older or your health changes. However, guaranteed renewable does not mean that your rates can *never* change. Rates cannot be raised on an individual basis…but they can be raised for a group as a whole.

Choosing a plan. Rate stability should be an important consideration. While no company can guarantee it will never raise rates, question its history of rate increases for long term care insurance. John Hancock and MetLife have been offering long term care insurance for almost 15 years and have a long history of rate stability.

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Thinking about changing plans? Consider your options...

Are you worried that a long term care insurance plan purchased years ago may not meet your needs now?

Your worries may be justified. Plans *have* changed over the years and newer plans have features not previously available. Also, due to the rising cost of care, your plan may no longer cover the costs of long term care services in your area. Think carefully about your options before replacing one plan with another…

- **RATES.** Remember that long term care insurance rates are based on your age when you initially buy the coverage. If you've had a plan for years, it may not be in your best interest to replace it. It's likely to cost more to purchase comparable benefits at your current age.

Another option: *Supplement* your plan with a new one. Compare your plan benefits with those available in the marketplace. Study the cost difference. Compare the cost of completely replacing your plan versus the cost of supplementing it with a smaller amount of coverage in a new or additional plan.

- **SERVICES.** You may have a plan that covers nursing home and home care costs, but not assisted living facility costs. Or, you may be most concerned about the cost of facility care and desire more coverage. You could consider supplementing your plan with one that offers an option to choose facilities only (e.g., nursing homes and assisted living facilities), such as the Federal Long Term Care Insurance Program. This would provide you with increased benefits if you need care in both an assisted living facility and nursing home.

Cost is a key consideration when deciding whether to keep, replace or supplement existing coverage. There are a number of options available to you and only you can decide what best meets your needs.

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HOW TO PAY?

Remember, programs such as Medicare, the Federal Employees Health Benefits (FEHB) Program, TRICARE and Tricare For Life, and private health insurance do not routinely pay for long term care. (See *Get Smart About Your Future,* April 2002.)

And Medicaid, the government program to help those in financial need, won't kick in until virtually all your assets—and your spouse's assets— have been consumed.

Reality: For those not on Medicaid, most of the cost of long term care comes out of their own pockets.

Could you pay these potential bills? Would you want to? And based on the average annual costs for long term care mentioned earlier in this article, how long would your life savings last?

Long term care could quickly wipe out your assets…as well as the security you imagined for your loved ones.

If you envision other uses for your assets, you can consider paying for long term care with a reverse mortgage or hybrid insurance product that is tied to an annuity or another life insurance product.

Or you could preserve your assets by purchasing long term care insurance, such as through the Federal Long Term Care Insurance Program.

People of any age can develop serious health problems that require lengthy or lifelong treatment. You could need long term care tomorrow…five years from now…10 years from now…maybe 30. But once you have the policy, you are protected—and so are your assets.

And—deciding to purchase long term care insurance when you are younger can result in dramatically lower premiums.

NEXT ISSUE:

- Dispelling the myths of long term care insurance.
- Order an Open Season Information and Application Kit.

* Conning & Company, *Long Term Care Insurance, Baby Boom or Bust,* 1999 p. 15.
** MetLife Market Survey of Nursing Home and Home Care Costs, April 2002.
*** Can Aging Baby Boomers Avoid the Nursing Home?" Sucki, B. and Mulvey, J. ACLI, March 2000, p. 15.

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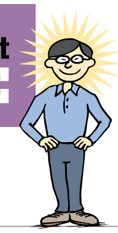
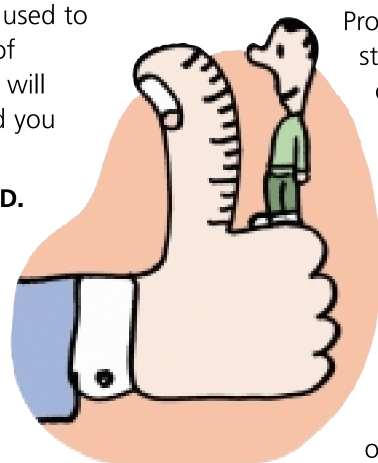


Long Term Care Insurance Benefits: How Do I Qualify?

One of the most important questions to ask when reviewing any long term care insurance plan is, "How will I qualify for benefits once I am insured?"

Critical: Be sure you understand how an insurance company determines benefit eligibility. How the company measures benefit eligibility, and the process used to gather the information to make a decision of whether you are eligible to receive benefits, will help you understand what to expect, should you need benefits some day.



■ **TAX QUALIFIED VS. NON-TAX QUALIFIED.** The Health Insurance Portability and Accountability Act of 1996 (HIPAA) provides favorable tax status to long term care insurance plans that meet certain criteria. Any benefits received under a tax qualified plan will generally not be considered taxable income. In addition, premiums paid for a tax qualified long term care insurance plan are tax deductible to the extent that premiums paid plus other deductible medical expenses exceed 7.5% of an individual's adjusted gross income, subject to maximum dollar limitations set by law. You should find out whether any plan you are considering is tax qualified. The Federal Long Term Care Insurance Program is tax qualified.

■ **CHRONICALLY ILL.** According to HIPAA, to qualify for benefits, an individual must be determined to be chronically ill. Chronically ill means that you are unable to perform at least 2 out of 6 Activities of Daily Living (ADLs), without substantial assistance, for a period expected to last at least 90 days, or have a severe cognitive impairment.

HIPAA has designated the following 6 ADLs for companies to consider when determining your eligibility for benefits:

- Bathing
- Toileting
- Dressing
- Eating
- Transferring
- Continence

The law also states that a plan may not be treated as a tax qualified long term care insurance plan unless it considers *at least* five of these ADLs. So make sure the plan you are thinking about considers at least five. Most companies require that the insured need assistance with either two or three ADLs. Look at the total number of ADLs to qualify for benefits. The loss of two out of six ADLs is the least restrictive ADL benefit eligibility criteria allowed by HIPAA and is the model used in the Federal Long Term Care Insurance Program.

■ **STAND-BY OR HANDS-ON.** How a company defines substantial assistance will determine the level of ADL assistance you need to qualify for benefits. A plan will typically define substantial assistance as either stand-by or hands-on or both. The Federal Long Term Care Insurance Program defines substantial assistance as both stand-by *and* hands-on. A plan that considers only hands-on assistance is more stringent.

If you had a stroke and required physical assistance getting from the bed to a chair, you would need hands-on assistance for transferring. However, if you didn't need someone to physically assist you with transferring, but only needed verbal guidance and someone to stand by during the transfer (because of a risk of falling), then you would need stand-by assistance. While one company that only used stand-by assistance would view this person as needing assistance with transferring, another company that considered hands-on assistance only, would not.

A company's definition of substantial assistance could make a significant difference in when you might qualify for benefits.

Benefit eligibility in a long term care insurance plan can be a confusing area. Although HIPAA has led to greater uniformity, it leaves room for differences among companies, even in tax qualified plans. These differences can be a factor in whether or not you'll receive benefits. Asking the right questions and studying plans now is the best way to be certain you select a plan whose benefit eligibility criteria will meet your needs.

MARK YOUR CALENDAR!

Open Season for the Federal Long Term Care Insurance Program starts July 1, 2002.

ILLUSTRATIONS BY STUART GOLDENBERG

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How to qualify for long term care insurance benefits
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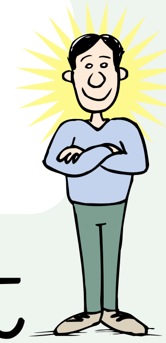

Be Smart

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Long Term Care Smarts

ASSISTED LIVING FACILITY STATS

Forty-six percent of residents move into an assisted living facility from their homes. Thirty-three percent of residents move out of assisted living into a nursing home because a higher level of care becomes necessary.

Assisted Living Resident Profile, About Assisted Living, The National Center for Assisted Living, 2001.

NEWS FROM HIAA

The latest Health Insurance Association of America (HIAA) long term care study found that the number of Americans who have purchased LTC insurance grew from 1.9 million in 1990 to 6.8 million in 1999. Their study disclosed several key findings:

- The average age of purchasers in the individual market went from age 72 in 1990 to age 65 in 1999. Purchasers in the employer-sponsored market are, on average, approximately 43 years old.
- All companies surveyed by HIAA no longer just sell "nursing home only" policies.
- Nine of the top 10 sellers no longer have a pre-existing condition limitation for receiving benefits as long as pertinent medical conditions are disclosed at the time of application.

http:/www.hiaa.org, February 22, 2002.

The Federal Long Term Care Insurance Program is administered by Long Term Care Partners, LLC, and offered by:
John Hancock Life Insurance Company, Boston, MA 02117
Metropolitan Life Insurance Company, New York, NY 10010

WHO'S ELIGIBLE TO APPLY?

If you are in one of these groups, you are eligible to apply for the Federal Long Term Care Insurance Program:

- Federal and Postal employees and annuitants
- Members and retired members of the uniformed services
- Current spouses and adult children (at least 18 years old, including adopted children and stepchildren) of living members of the groups above
- Parents, parents-in-law and stepparents of living Federal and Postal employees and living members of the uniformed services
- Surviving spouses receiving a survivor annuity